

Sundays River Valley Municipality

Audit Report

For the year ended 30 June 2016



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Sundays River Valley Municipality
P O Box 47
Kirkwood
6120

30 November 2016

Reference: 60047REG1516

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Sundays River Valley Municipality for the year ended 30 June 2016

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Sundays River Valley Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Deputy Business Executive or the senior manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



Shereen Noble: Deputy Business Executive Eastern Cape Business Unit

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Report of the Auditor-General to the Eastern Cape Provincial Legislature and the council on Sundays River Valley Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Sundays River Valley Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa (Act No.1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for adverse opinion

Property, plant and equipment

6. The municipality did not account for its property, plant and equipment (PPE) in accordance with GRAP 17: *Property, plant and equipment* in the following instances:
- PPE disclosed in the statement of financial position and note 10 to the financial statements did not include all assets that belong to the municipality. As a result PPE is understated by R281 million (2015: R281 million) depreciation by R67 million and the accumulated surplus is understated by R53 million.
 - Furthermore, the municipality did not calculate the remaining useful life and the estimated useful life in accordance with the applicable guidance for PPE disclosed in the statement of financial position and note 10 to the financial statements. Consequently PPE is overstated by R119,5 million (2015: R42,5 million) and the accumulated surplus is understated by the same amount.

Irregular Expenditure

7. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 38 to the financial statements is understated in respect of amounts incurred during the year that were identified during the audit process. Due to the lack of systems and sufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of irregular expenditure, and it was not possible to confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosed at R179,9 million (2015: R72,3 million).

Revenue from exchange transactions

8. The municipality did not measure revenue at the fair value of the consideration received or receivable in accordance with GRAP 9: *Revenue from exchange transactions*. This was due to management not having systems to account for revenue and ensure that it was completely recorded. Consequently revenue from exchange transactions and receivables from exchange transactions as disclosed in the statement of financial performance and note 19 and 5 to the financial statements is understated by at least R3,5 million (2015: R11,3 million). Due to the lack of systems and sufficient appropriate audit evidence for revenue, it was impracticable to determine the full extent of the understatement of revenue, and it was not possible to confirm this by alternative means.
9. In addition sufficient and appropriate evidence was not available to support revenue from exchange transactions as presented in the statement of financial performance. This was due to a lack of systems and processes in place at the municipality. I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from exchange transactions disclosed at R45,1 million (2015: R73,4 million) in the statement of financial performance.

Revenue from non-exchange transactions

10. The municipality did not measure revenue at the fair value of the consideration received or receivable in accordance with GRAP 23: *Revenue from non-exchange transactions*. This was due to management not having systems to account for revenue and ensure that it was accurately recorded. Consequently revenue from non-exchange transactions as disclosed in the statement of financial performance and note 22 is overstated by R8,2 million (2015: 6,3 million), receivables from non-exchange transactions as disclosed in the statement of financial position and note 4 to the financial statements is overstated by R2,4 million (2015: understated by R4 million) and unspent grants is understated by R5,8 million due to the incorrect calculation of revenue.
11. Sufficient and appropriate evidence was not available to support revenue from non-exchange transactions as disclosed in note 22 to the financial statements. This was due to a lack of systems and processes in place at the municipality. I was unable to confirm the revenue from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from non-exchange transactions disclosed at R141,4 million (2015: R137,3 million) in the statement of financial performance and note 22 to the financial statements.

Commitments

12. The municipality did not have an adequate and complete contract management system in place for the identification and recognition of contracted commitments and did not include commitments of at least R16,9 million (2015: R8 million) in the amounts disclosed in note 33 to the financial statements. Due to the lack of adequate systems in place, it was impracticable to determine the full extent of the understatement of commitments as disclosed. Consequently, I was unable to determine whether any adjustments were necessary to commitments as disclosed at R26,5 million (2015: R37,6 million).

Receivables from exchange and non-exchange transactions

13. The municipality did not account for receivables from exchange and non-exchange in accordance with the requirements of GRAP 104: *Financial Instruments* for the allowance for impairment and did not recognise all debtors when the recognition criteria had been met. As a result, receivables from exchange and receivables from non-exchange transactions as disclosed in the statement of financial position and note 4 and 6 combined is understated by R42,6 million (2015: Overstated by R10,9 million and impairment understated by the same amount) while revenue from exchange and non-exchange transactions as disclosed in note 19 and 22 to the financial statements is understated by the same amount.
14. Sufficient and appropriate audit evidence was not available to support receivables from non-exchange transactions and receivables from exchange transactions as disclosed in note 4 and 5 to the financial statements. This was due to a lack of systems and processes in place at the municipality. I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any further adjustments to receivables from non-exchange and receivables from exchange transactions disclosed at R17,2 million (2015: R3,7 million) and 19,9 million (2015: R19,2 million) respectively were necessary.

General expenditure

15. The municipality has not recognised all expenses that meet the definition of expenditure in accordance with GRAP 1: *Presentation of financial statements*. The municipality did not have adequate processes to identify and correctly recognise expenditure. Consequently general expenditure as disclosed in the statement of financial performance and note 31 is overstated by R7,3 million (2015: Understated by R3,4 million), revenue from exchange transactions as disclosed in the statement of financial performance and note 19 is overstated by R6 million and payables from exchange transactions as disclosed in the statement of financial position and note 13 to the financial statements is overstated by R1,6 million.
16. In addition sufficient and appropriate evidence was not available to support expenditure transactions disclosed at R42,7 million (2015: R39,4 million) in note 31 to the financial statements. This was due to a lack of systems and processes at the municipality. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustment to general expenditure was necessary.

Value added tax(VAT) Payable

17. Sufficient and appropriate evidence was not available to support the VAT payable disclosed in note 14 to the financial statements. This was due to the municipality not having adequate document management processes in place. I was unable to confirm the VAT payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT payable disclosed at R9,6 million (2015: R7,8 million).

Fruitless and wasteful expenditure

18. The municipality did not have adequate systems in place to identify and disclose all fruitless and wasteful expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. Additional fruitless and wasteful expenditure of R7,4 million was identified through the audit process that was not disclosed in the financial statements. Consequently fruitless and wasteful expenditure disclosed at R1,5 million in note 39 to the financial statements is understated by R7,4 million.

Distribution losses

19. Sufficient and appropriate evidence was not available to support the water losses disclosed in note 44 to the financial statements. This was due to the municipality not having adequate document management processes in place. I was unable to confirm the water losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to water losses disclosed at R17,9 million.

Aggregation of immaterial uncorrected misstatements

The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial performance and the notes to the financial statements:

- Repairs and maintenance reflected as R4 million in the statement of financial performance and note 29 to the financial statements is overstated by R1,4 million

and payables from exchange reflected as R28,2 million in the statement of financial position and note 13 to the financial statements is overstated by the same amount.

- Employee costs reflected as R47,6 million in the statement of financial performance and note 24 to the financial statements is overstated by R2,2 million and receivables from exchange reflected as R20 million disclosed in the statement of financial position and note 5 to the financial statements is understated by the same amount.
- Depreciation and amortisation reflected as R26,3 million in the statement of financial performance and note 24 to the financial statements is overstated by R3 million and PPE reflected as R482,4 million disclosed in the statement of financial position and note 10 to the financial statements is understated by the same amount.
- Bulk purchases reflected as R20 million in the statement of financial performance and note 24 to the financial statements is overstated by R1,9 million and payables from exchange reflected as R28,2 million in the statement of financial position and note 13 to the financial statements is overstated by the same amount.

Corresponding figures

Adjustments to corresponding figures

20. Sufficient and appropriate evidence was not available to support the changes made to the comparative information disclosed in note 42 to the financial statements. This was due to the municipality not having adequate document management processes in place. I was unable to determine whether any further adjustments to the below prior period adjustments affecting the corresponding figures as disclosed in note 42 to the financial statements were necessary:

- PPE of R17,7 million.
- Receivables from exchange of R2 million
- Receivables from non-exchange of R758 thousand
- Cash and cash equivalents of R148 thousand
- Finance lease obligation of R525 thousand
- Trade Payables of R1,6 million
- Depreciation and amortisation of R2,9 million
- Impairment loss of R4,8 million
- Receivables from non-exchange of R1,5 million
- Receivables from exchange of R1,9 million
- Finance costs of R466 thousand
- Lease rentals of R51 thousand

- Repairs and maintenance of R107 thousand
- Bulk purchases of R200 thousand
- Loss on disposal of assets of R436 thousand
- General expenditure of R2,3 million

Adverse opinion

21. In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of the Sundays River Valley Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter paragraphs

22. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Restatement of corresponding figures

23. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors only corrected during the year ended 30 June 2016 that existed in the financial statements at, and for the year ended 30 June 2015.

Material losses

24. As disclosed in note 44 to the financial statements electricity distribution losses to the amount of R3,3 million was incurred. This was due to lack of processes and controls to prevent losses effectively.

Impairment

25. As disclosed in note 27 to the financial statements, impairment to the amount of R 11,2 million was incurred as a result of irrecoverable trade debtors. This is due to poor debt collection processes.

Additional matters

26. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

27. The supplementary annexures set out on pages XX to XX do not form part of the financial statements and are presented as additional information. We have not audited these schedules and accordingly we do not express an opinion thereon.

Unaudited disclosure notes

28. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

29. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

30. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Basic service delivery and infrastructure development on pages x to x
 - Community and social services on pages x to x
 - Local economic development on pages x to x
31. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
32. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
33. The material findings in respect of the selected objectives are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

34. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 73% of the indicators relevant to the selected development objective were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to a lack of standard operating procedures and key controls in the relevant systems of collection, collation, verification and storage of actual performance information.
35. The FMPPI requires that performance targets must be measurable. A total of 55% of the targets in relation to the selected development objective were not measurable. This was

due to the fact that management did not correctly apply the principles contained in the FMPPI when setting their targets and that management did not have sufficient appropriate audit evidence and monitoring activities to support how targets were measured.

Reliability of reported performance information

36. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Community and social services

Usefulness of reported performance information

37. Section 41 (c) of the MSA requires that the Integrated Development Plan (IDP) should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported objectives and 20% of the reported targets included in the annual performance report were not consistent with the objectives, indicators and targets respectively, in the approved IDP and the Service Delivery and Budget Implementation Plan (SDBIP). This was due to the lack of reviews of the completeness of the annual performance report against the IDP and SDBIP by management.
38. The FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance. Also, the FMPPI requires that performance targets be measurable. A total of 33% of the targets in relation to the selected development objective were not specific in clearly identifying the nature and the required level of performance and were not measurable. This was due to the fact that management did not correctly apply the principles contained in the FMPPI when setting their targets and that management did not have sufficient appropriate audit evidence and monitoring activities to support how targets were measured.
39. The FMPPI requires that indicators should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 40% of the indicators relevant to the selected development objectives were not well defined, and unambiguous data definitions were not available to allow for data to be collected consistently. This was due to a lack of development and implementation of proper performance planning and management practices to facilitate the development of performance indicators for inclusion in the municipal IDP.

Reliability of reported performance information

40. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the Portfolio of Evidence provided.

Local economic development

Usefulness of reported performance information

41. The FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance. Also, the FMPPI requires that performance targets be measurable. A total of 33% of the targets in relation to the selected development objective were not specific in clearly identifying the nature and the required level of performance and were not measurable. This was due to the fact that management did not correctly apply the principles contained in the FMPPI when setting their targets and that management did not have sufficient appropriate audit evidence and monitoring activities for showing how targets were measured.
42. The FMPPI requires that indicators should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 33% of the indicators relevant to the selected development objectives were not verifiable, well defined and unambiguous data definitions were not available to allow for data to be collected consistently. This was due to a lack of development and implementation of proper performance planning and management practices to facilitate the development of performance indicators for inclusion in the municipal SDBIP.
43. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 33% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the SDBIP. This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the annual performance service delivery and budget implementation plan. This was also due to a lack of proper systems and processes for the planning of performance information.

Reliability of reported performance information

44. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the Portfolio of Evidence provided.

Additional matter

45. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Achievement of planned targets

46. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 34 to 44 of this report.

Adjustment of material misstatements

47. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for infrastructure investment, local economic development and community and social services. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary schedules

48. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

49. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows.

Strategic planning and performance management

50. Performance targets set were not measurable for each of the key performance indicators for the financial year as required by section 41(1)(b) of the Municipal systems act (MSA) and the Municipal planning and performance management regulations (MPPMR) 12(1) and 12(2)(e).
51. The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA
52. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance, i.e. planning, monitoring, measurement, review, reporting and improvement, and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the MPPMR.
53. The adopted integrated development plan (IDP) did not reflect and identify a financial plan and the key performance indicators and targets, as required by sections 26 and 41 of the MSA, as well as MPPMR 2(1)(c).

Annual reports and Annual Financial Statements

54. The annual performance report for the year under review did not include
- the performance of each external services provider and
 - a comparison of the performance and set targets of the previous financial year as required by section 46(1)(a) and 46(1)(b) of the MSA

55. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving an adverse opinion.

Consequence management

56. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(b) of the Municipal Finance Management Act.

Expenditure management

57. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
58. I could not obtain sufficient appropriate audit evidence that payments from the municipality's bank account were approved by the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.
59. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors, accounted for payments made, as required by section 65(2)(b) of the MFMA.
60. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
61. Reasonable steps were not taken to prevent fruitless and wasteful, unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

62. I could not obtain sufficient appropriate audit evidence that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
63. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and/or at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
64. Bid adjudication committees were not always composed in accordance with SCM regulation 29(2).
65. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
66. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
67. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

68. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
69. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
70. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
71. Contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
72. Construction contracts were awarded to contractors that did not qualify for the contract in contravention of section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

Revenue management

73. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of the MFMA.
74. An adequate management, accounting and information system which accounts for revenue, debtors, receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
75. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
76. Revenue due to the municipality was not calculated on a monthly basis, as required by section [64(2)(b) of the MFMA.
77. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Conditional grants and transfers

78. The Municipal Infrastructure Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the Division of Revenue Act.
79. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant allocation, as required by section 12(5) of the Division of Revenue Act.

Asset management

80. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Internal control

81. I considered internal control relevant to my audit of the financial statements, Annual performance report and compliance with legislation. The matters reported below are

limited to the significant internal control deficiencies that resulted in the basis for adverse opinion.

Leadership

- 82. Leadership has not exercised consequence management for underperformance or non-compliance with policies and procedures resulting in a weak control environment prone to errors resulting from significant control deficiencies.
- 83. Leadership did not implement and monitor the progress against the audit action plan to address internal and external audit findings and as a result, numerous internal control deficiencies have again been reported in the current year.
- 84. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting within the financial statements and annual performance report as well as over compliance with laws and regulations. The lack of adequate oversight resulted in significant errors being identified during the audit

Financial and performance management

- 85. The municipality does not have adequate records management controls and this is evidenced by the limitation of scope on financial statement items and performance reporting.
- 86. Management did not design and implement daily and monthly financial controls in order to ensure the financial statements and annual performance reports are supported by accurate and complete underlying records.
- 87. Management did not implement a framework for monitoring compliance with legislation resulting in material compliance findings being reported.

Governance

- 88. The governance structures within the municipality were not effective in their oversight role due to the lack of credible information submitted by management and inadequate implementation of the internal audit plan.

Auditor-General

East London

30 November 2016



Auditing to build public confidence